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ABSTRACT

Recommendations on leasing or selling a surplus school building that has been closed due to declining enrollment are offered. Questions which need to be addressed in deciding which option to pursue are presented including whether it would be better to use the building for community purposes than to lease or sell it. The advantages and disadvantages of both leasing and selling are listed. Specific steps to follow after making the decision are provided. Steps common to both leasing and selling include: getting an appraisal, setting a price, preparing a booklet describing the property, working with economic development groups, advertising the property, meeting with prospective lessees or purchasers, developing a lease or sales agreement, approving the agreement at a board meeting, and obtaining the approval of or submitting the data to the proper state agency. Steps which are specific to leasing are: reaching agreement on who is responsible for building modifications and how much the modifications will cost, and determining if a zoning change is necessary. Steps which are specific to selling are: preparing specifications and putting the property out to bid, and deciding whether or not to accept the bids. (DC)

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CLOSE IT, SELL IT, OR LEASE IT: WHAT TO DO WITH THAT OLD SCHOOL

AT THE JOHN DEWEY-HORACE MANN HOME FOR RETIRED EDUCATORS AND THEIR ILK, SOME OLD SUPERINTENDENTS AND SCHOOL BOARD MEMBERS WERE REMINISCING:

"DO YOU REMEMBER THE GOOD OLD DAYS? REMEMBER WHEN WE HAD SO MANY NEW STUDENTS COMING AT US EACH YEAR? WHY, OUR BUILDINGS OVERFLOWED WITH STUDENTS. SOME OF US HAD SO MANY STUDENTS WE HAD TO RUN TWO SHIFTS. AND REMEMBER ALL THOSE PORTABLES WE HAD TO USE?"

"I REMEMBER. IT SEEMED WE WERE ALWAYS HAVING BOND ELECTIONS TO RAISE MONEY FOR YET ANOTHER NEW SCHOOL. WE JUST COULDN'T BUILD SCHOOLS FAST ENOUGH TO KEEP UP WITH THE NUMBERS."

"RIGHT. THOSE SURE WERE THE GOOD OLD DAYS IN EDUCATION. WE WERE BUILDERS! NOWADAYS, THESE PEOPLE IN EDUCATION ARE JUST A BUNCH OF LANDLORDS AND REALTORS!"

IN MANY WAYS, THOSE WERE "THE GOOD OLD DAYS." IT'S EASIER TO BE PART OF A GROWTH PERIOD AND, PROBABLY, A LOT MORE EXCITING. I THINK EVERYONE IN EDUCATION DURING THAT TIME FELT LIKE A PIONEER. BUT, NOW THE PIONEERING IS OVER, THE POPULATION IS DWINDLING AND THE BOOM TOWN FEELING IS GONE. SCHOOLS STAND

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VACANT; SCHOOL LANDS LAY DORMANT. INDEED, MANY OF US HAVE BECOME REALTORS AND LANDLORDS.

YET, JUST AS THE BUILDERS IN EDUCATION WERE DOING THEIR BEST IN PROVIDING FOR THEIR STUDENTS, WE, THE SO-CALLED "REALTORS IN EDUCATION," MUST DO THE BEST FOR OUR STUDENTS. AND, FOR US, THAT MEANS BECOMING THE MOST KNOWLEDGEABLE REALTORS, LANDLORDS, AND SALESPEOPLE WE CAN. SCHOOL PEOPLE NEED TO UNDERSTAND THE REAL ESTATE BUSINESS AND ITS MARKETING TECHNIQUES. WE MUST KNOW THE PROCESS TO FOLLOW IN LEASING OR SELLING PROPERTY. IT'S IMPORTANT FOR US TO BECOME AWARE OF HOW ECONOMIC DEVELOPMENT COMMITTEES OR CORPORATIONS FUNCTION, AND IT'S EVEN MORE IMPORTANT THAT SCHOOL DISTRICT REPRESENTATIVES BE ON THESE COMMITTEES.

THUS, I URGE YOU SCHOOL BOARD MEMBERS AND ADMINISTRATORS TO TAKE THE INITIATIVE IN DEVELOPING PLANS FOR THE USE OF YOUR SCHOOL FACILITIES THAT ARE DECLARED EXCESS. YOUR MAJOR OBJECTIVE SHOULD BE TO GENERATE THE MOST DOLLARS FROM YOUR CLOSED SCHOOLS. IN MANY CASES, THESE EXCESS BUILDINGS CAN GENERATE CONSIDERABLE FUNDS FOR SCHOOL DISTRICTS BECAUSE THEY ARE OFTEN LOCATED IN PARTS OF THE CITY WHERE OFFICE SPACE IS IN DEMAND. USUALLY, THERE IS NO OTHER SPACE AVAILABLE FOR ANY NEW BUILDINGS, AND THE PRICE OF A NEW BUILDING IS OFTEN PROHIBITIVELY HIGH. RENTING, SELLING, OR LEASING YOUR BUILDINGS IS AN EXCELLENT SOURCE OF INCOME FOR YOUR SCHOOL DISTRICT TO USE FOR PROGRAM IMPROVEMENT.

THIS INCOME ALSO HELPS TAXPAYERS IN YOUR COMMUNITY AS THE SCHOOL DISTRICT CAN CARRY OUT PROJECTS USING THESE FUNDS RATHER THAN HAVING TO ISSUE BONDS.

BEFORE YOU CAN DECIDE WHAT IS THE BEST USE OF YOUR EXCESS BUILDINGS, MANY QUESTIONS NEED TO BE ASKED AND ANSWERED: HOW CAN WE GET THE MOST DOLLARS FOR OUR ASSETS? IF WE SELL, WHAT IS THE BEST WAY TO USE THE FUNDS? IF THE BUILDINGS ARE LEASED, HOW DO WE GET OPTIMUM RENT? HOW DO WE FIND THE MONEY TO RENOVATE OUR BUILDINGS TO MEET THE NEEDS OF THE LESSEE? WOULD IT BE BEST TO USE THE EXCESS BUILDINGS FOR A COMMUNITY NEED, SUCH AS A COLLEGE OR OTHER COMMUNITY BUILDING? IN ATTEMPTING TO FIND ANSWERS TO THESE QUESTIONS, YOU'LL BEGIN TO REALIZE THE IMPORTANCE OF DEVELOPING AN OVERALL MASTER PLAN AND PROCEDURE FOR DETERMINING HOW BUILDINGS ARE TO BE USED; HOW FUNDS ARE TO BE GENERATED; AND HOW FUNDS WILL BE USED AFTER THEY ARE GENERATED.

MAYBE YOUR OLD SCHOOLS SHOULD BE USED FOR SOME OTHER KINDS OF COMMUNITY BUILDINGS. IF THE COMMUNITY IS IN NEED OF BUILDINGS THAT TAXPAYERS WOULD HAVE TO PAY FOR THROUGH BOND ISSUES, IT MIGHT BE VERY APPROPRIATE TO USE EXCESS SCHOOL BUILDINGS FOR THOSE NEEDS. HOWEVER, SCHOOL PERSONNEL MUST COMMUNICATE VERY CLEARLY THAT THE USE OF A SURPLUS SCHOOL AS A COMMUNITY BUILDING IS PART OF AN OVERALL PLAN FOR COMPREHENSIVE USE OF SCHOOL PROPERTY FOR THE PEOPLE IN THE COMMUNITY. AND ONE MUST STRESS THAT, IF THE SCHOOL DISTRICT DONATES THE BUILDING FOR OTHER GROUPS, THE SCHOOLS ARE HELPING SAVE TAXPAYERS MONEY--SINCE THEY DON'T HAVE TO BOND FOR A NEW BUILDING. IT IS ESSENTIAL THAT SCHOOL PEOPLE REMIND THE PUBLIC, ON A REGULAR BASIS, THAT THE DISTRICT HAS SACRIFICED RENTAL OR SALE INCOME, AND THAT SOMETIME IN THE FUTURE THE SCHOOL DISTRICT MAY NEED TO PASS A BOND ISSUE TO ACCOMPLISH

PROJECTS THAT MIGHT HAVE BEEN FINANCED FROM THE RENTAL OR SALE OF THOSE DONATED BUILDINGS.

IF IT IS BEST FOR THE DISTRICT NOT TO DONATE THE BUILDING, AND IT WANTS TO RENT, SELL, OR LEASE IT, THE FIRST STEP IS TO ASK THE QUESTION, "HOW DO WE MAKE THE DECISION ABOUT WHAT TO DO WITH THE BUILDING?" HERE ARE SOME GENERAL STEPS TO FOLLOW TO HELP REACH THAT DECISION:

FIRST, THE SCHOOL BOARD AND ADMINISTRATION SHOULD DISCUSS THE VARIOUS ALTERNATIVES. SECOND, THE STAFF SHOULD BE ASSIGNED THE RESPONSIBILITY OF GATHERING SPECIFIC DATA ABOUT THE VARIOUS ALTERNATIVES THAT HAVE BEEN DISCUSSED AND DEVELOPING ADDITIONAL ALTERNATIVES IF POSSIBLE. THEN, THE STAFF SHOULD BE RESPONSIBLE FOR PREPARING A PROPOSAL ON WHAT SHOULD BE DONE. THE PROPOSAL IS THEN SUBMITTED TO THE BOARD FOR STUDY, DISCUSSION, AND DECISIONS.

PRIOR TO THE TIME THE SCHOOL BOARD MAKES THE FINAL DECISION, EVERYONE NEEDS TO LOOK AT THE ADVANTAGES AND DISADVANTAGES OF RENTING, LEASING, OR SELLING A BUILDING.

SOME OF THE ADVANTAGES OF RENTING OR LEASING ARE:

- THE BUILDING REMAINS THE PROPERTY OF THE DISTRICT. THAT MEANS IF THE BUILDING IS NEEDED AGAIN, IT COULD BE PUT BACK INTO SERVICE.

- In many states, school districts can use the rental income in the operational budget.

- The school board has the option to lease part of a building and use the other part of it or the land for its educational program.

- The school district could also permit the use of part of the building for a community need, and rent or lease the other portion.

Disadvantages of renting or leasing include:

- The school district is in the real estate business and must have someone administer the portfolio for each building that is leased.

- Alternative plans have to be developed to cover programs funded from leased income in case the lease is terminated. That means the staff needs to be prepared for reduction of program and reduction of staff involved in the program.

THERE ARE ADVANTAGES AND DISADVANTAGES, AS WELL, IF THE BUILDING IS SOLD.

ADVANTAGES ARE:

- ONCE THE BUILDING IS SOLD, THE SCHOOL DISTRICT DOESN'T HAVE TO REMAIN IN THE REAL ESTATE BUSINESS.
- THE INCOME FROM A SALE COULD BE PLACED IN TRUST FUNDS (IN MOST STATES) AND SCHOOL DISTRICTS COULD USE THE INTEREST IN THEIR OPERATIONAL BUDGETS.
- THE SCHOOL DISTRICT DOESN'T HAVE TO MAINTAIN THE BUILDING.

DISADVANTAGES ARE:

- ONCE THE BUILDING IS SOLD, THERE IS NO CHANCE TO USE IT AGAIN FOR FUTURE EDUCATIONAL NEEDS.
- IN SOME STATES, IT MAY NOT BE POSSIBLE TO SET UP TRUST FUNDS. ALSO, IN SOME STATES, THESE TRUST FUND REVENUES SHOW UP AS CARRYOVERS--MANY STATE LEGISLATURES LOOK UNFAVORABLY AT SUCH ITEMS.

THERE ARE OTHER MINOR ADVANTAGES AND DISADVANTAGES THAT NEED TO BE EVALUATED IN THE PROCESS OF MAKING THE DECISION. BUT ONCE THE DECISION HAS BEEN REACHED, HOW THEN DOES ONE GO ABOUT RENTING, LEASING, OR SELLING? OF COURSE, PROCEDURES WILL VARY FROM STATE TO STATE, BUT THE FIRST THING THE SCHOOLS SHOULD DO IS REVIEW THE STATE LAWS TO DETERMINE SPECIFIC LIMITATIONS RELATED TO RENTING, SELLING, OR LEASING. AFTER THOSE LIMITATIONS HAVE BEEN IDENTIFIED, THEN SPECIFIC STEPS CAN BE FOLLOWED.

SOME PROCEDURAL STEPS FOR SCHOOL BOARDS TO FOLLOW IN LEASING PROPERTY ARE:

- OBTAIN AN APPRAISAL AND DESCRIPTION OF THE BUILDINGS AND GROUNDS. THE APPRAISAL SHOULD INCLUDE AN INCOME APPROACH TO ESTABLISH THE VALUE OF THE PROPERTY (COST, INCOME, MARKET INCOME).

- ESTABLISH A LEASE AMOUNT BASED ON SQUARE FOOTAGE COSTS. ONE SHOULD DISCUSS THE SUGGESTED LEASE FEES WITH THE APPROPRIATE STATE AGENCY TO DETERMINE THE MOST APPROPRIATE RENTAL FEES. BOTH A MINIMUM AND MAXIMUM PER SQUARE FOOT FEE SHOULD BE DETERMINED AND AGREED UPON BY THE BOARD. IT IS VITAL FOR A SCHOOL BOARD TO HAVE AGREED UPON
WITH PROSPECTIVE LESSEES.

- WORK WITH ANY PROSPECTIVE LESSEE TO DETERMINE WHO IS GOING TO BE RESPONSIBLE FOR BUILDING MODIFICATIONS AND HOW MUCH THE CHANGES WILL COST. IF THE SCHOOL DISTRICT DOESN'T HAVE FUNDS TO PAY FOR THE MODIFICATIONS, THE PROSPECTIVE LESSEE SHOULD BE SO ADVISED. THE DISTRICT COULD ASK THE LESSEE TO PAY FOR THE MODIFICATIONS AND BE REPAID THROUGH REDUCED RENT. IF THE LESSEE PAYS FOR THE MODIFICATIONS, THE SCHOOL DISTRICT COULD REDUCE THE SQUARE FOOT LEASE AMOUNT TO ENABLE THE LESSEE TO RECOVER THE MODIFICATION EXPENSES WITHIN A REASONABLE PERIOD OF TIME. THE SCHOOL BOARD SHOULD RETAIN THE RIGHT TO APPROVE ALL BUILDING MODIFICATION PLANS REGARDLESS OF WHO IS PAYING FOR THEM.

- DETERMINE IF A ZONING CHANGE IS NECESSARY. IT IS ESSENTIAL THAT THERE IS AGREEMENT ABOUT WHO IS RESPONSIBLE FOR REQUESTING THAT CHANGE. A SCHOOL DISTRICT CAN REQUEST THE CHANGE; HOWEVER, IN MANY PLACES, THIS CAUSES THE SCHOOL BOARD TO BE IN THE MIDDLE OF YET ANOTHER CONFLICT WITH THE COMMUNITY. OFTEN THE COMMUNITY IS ALREADY

UPSET WITH THE BOARD AND ADMINISTRATION BECAUSE A NEIGHBORHOOD SCHOOL HAS BEEN CLOSED--THEY GET ANGRY AGAIN OVER THE REQUEST FOR ZONING CHANGE. IT IS MY RECOMMENDATION THAT THE BOARD HAS THE LESSEE REQUEST THE CHANGE WITH A CLAUSE IN THE CONTRACT STATING THAT IF THE ZONING CHANGE IS NOT APPROVED, THE CONTRACT IS NULL AND VOID.

- PREPARE A BOOKLET THAT DESCRIBES THE PROPERTY AND CONTAINS ALL THE DATA ABOUT THE BUILDING THAT IS AVAILABLE.

- WORK WITH CITY, COUNTY, AND STATE ECONOMIC DEVELOPMENT GROUPS. THE SCHOOL BOARD CAN ADVISE THESE GROUPS OF THE AVAILABILITY OF BUILDINGS AND WORK WITH THEM TO PROMOTE ANY ZONING CHANGES THAT NEED TO BE MADE. THESE ECONOMIC DEVELOPMENT GROUPS EXIST MAINLY TO HELP BRING ECONOMIC DEVELOPMENT INTO THE COMMUNITY, AND ARE USUALLY MOST INTERESTED IN HELPING THE SCHOOLS FIND RENTERS OR BUYERS.

- ADVERTISE THE PROPERTY IN VARIOUS JOURNALS AND NEWSPAPERS.

- Meet with prospective lessees to show the property and discuss necessary changes, etc.

- Reach an agreement on modifications needed and on the amount of the lease.

- Develop a lease agreement between the school board and lessee.

- Approve the agreement formally at an official school board meeting.

- Obtain necessary approval from state agencies. In New Mexico, it is essential that the school board obtain approval from the State Board of Finance. Once that approval is obtained, the lease can take effect.

There are several items to consider when developing an agreement with a lessee. Some of these have been mentioned, but are worth repeating. For example, which party is responsible for the modifications and expenses? Who pays for the engineering of the modifications? Which party will maintain the interior and exterior of the building? What happens if either party doesn't follow the agreement? Which party is responsible for custodial services? Also, the board should seek the longest lease contract possible, with the ability to cancel the agreement if the lessee

DOESN'T ABIDE BY THE AGREEMENT OR IF THE BUILDING IS NEEDED FOR SCHOOL USE AGAIN.

IF A DECISION IS MADE TO SELL THE SCHOOL, THE STEPS ARE QUITE SIMILAR TO THAT OF LEASING.

THE PROCEDURES INCLUDE:

- GET AN APPRAISAL OF THE BUILDING AND GROUNDS WITH SPECIFIC DESCRIPTIONS.
- ESTABLISH AN AMOUNT FOR WHICH THE BUILDING AND GROUNDS SHOULD BE SOLD ON A SQUARE-FOOTAGE BASIS. A PROPOSED MINIMUM AND MAXIMUM SALE PRICE SHOULD BE DETERMINED. THE APPRAISAL SHOULD INCLUDE INFORMATION COMPARING THE EXCESS PROPERTY WITH OTHER PROPERTY SOLD IN RECENT MONTHS--THIS SHOULD HELP THE SCHOOL BOARD DETERMINE THE SALE PRICE.
- PREPARE A BOOKLET DESCRIBING THE PROPERTY WITH ALL NECESSARY SUPPORTING DATA.
- WORK WITH CITY, COUNTY, AND STATE ECONOMIC DEVELOPMENT GROUPS, INFORMING THEM OF THE AVAILABILITY OF THE PROPERTY AND HELPING THEM TO PROMOTE THIS PROPERTY.

- ADVERTISE THE PROPERTY IN JOURNALS, NEWSPAPERS, ETC.
- MEET WITH PROSPECTIVE PURCHASERS, SHOW PROPERTY, ETC.
- PREPARE SPECIFICATIONS AND PUT PROPERTY OUT FOR BID.
- ACCEPT BIDS AND DECIDE TO ACCEPT OR NOT ACCEPT THE OFFERS.
- DEVELOP A SALE AGREEMENT.
- APPROVE THE SALE AGREEMENT AT A FORMAL SCHOOL BOARD MEETING.
- SUBMIT THE DATA RELATED TO THE SALE OF PROPERTY TO THE PROPER STATE AGENCY.

THE SCHOOL BOARD COULD ALSO CONSIDER A LEASE WITH AN OPTION TO PURCHASE. THIS WOULD ENABLE THE SCHOOL DISTRICT TO ENTER INTO AGREEMENT WITH A PROSPECTIVE BUYER SO THAT THE PROPERTY COULD BE PURCHASED AFTER IT HAS BEEN LEASED FOR A SPECIFIC PERIOD OF TIME, WITH THE SALE PRICE BEING BASED ON THE APPRAISAL AT THE TIME OF THE SALE.

AN EMPTY SCHOOL--THIS IS ALWAYS A POIGNANT IMAGE FOR ALL OF US INVOLVED IN EDUCATION. BUT A CLOSED SCHOOL WHICH COULD BE SOLD OR RENTED TO HELP FUND OUR EDUCATIONAL PROGRAMS IS NOT SO POIGNANT. IN FACT, IT'S A BRAND NEW SOURCE OF INCOME FOR US. SO LET'S GET BUSY LEARNING TO BE GREAT "REALTORS IN EDUCATION."